
The Loan Arranger

Spring/Summer 2000

Municipal Facilities Section - Environmental Assistance Division
Michigan Department of Environmental Quality **DEQ**

Fiscal Year 2001 Appropriation

By Tom Kamppinen

It seems we just celebrated the New Year and new millennium, and here we are looking at celebrating it again (for those who are of the opinion the new millennium does not start until 2001). In any event, we are



looking forward to the Fiscal Year 2001 funding cycle.

The President has submitted his proposed Fiscal Year 2001 budget and it again is lacking, with only \$800 million recommended for the State Revolving Fund (SRF) and \$825 million for the Drinking Water Revolving Fund (DWRf). Last year Congress restored funding to the SRF at \$1.35 billion and we are hopeful that will happen again this year.

Even at \$1.35 billion, Michigan's share is not sufficient to meet the needs of communities wishing to proceed with wastewater treatment projects this year or over the next several years. In fact, for the current fiscal year, Michigan has enough projects ready to proceed that would utilize 25 percent of the entire National Appropriation for the SRF (we receive a little over 4 percent).

While it is frustrating for municipalities and water suppliers not able to obtain low-cost financing for their projects, it is also a concern of the Department of Environmental Quality, not being able to assist all that are seeking assistance. The best we can do is to keep encouraging funding of the program and work together to maximize assistance and minimize the disappointment or false hopes for those seeking assistance.

It is our expectation to be able to revolve the SRF at \$200 million per year in Michigan over the next three to five years, with \$20 to \$27 million per year in the DWRf. Of course, the use of these funds is governed by a priority system contained in the authorizing statutes, Parts 53 and 54 of PA 451.

Fiscal Year 2000 Second Quarter Loans

A total of six communities will benefit from \$97.4 million in low-interest loans. Second Quarter State Revolving Fund loans totaling \$90.125 million have been approved for five wastewater facility projects. They are Lansing for \$9.8 million; Port Huron for \$5.23 million; Trenton for \$16.535 million; Detroit for \$53.475 million; and Wayne County-Downriver for \$5.085 million.

In addition, a \$7.29 million loan has been authorized from the Drinking Water Revolving Fund for the city of Wixom to upgrade its drinking water distribution system.

Public Hearing Dates

The dates have been set for the Fiscal Year 2001 Public Hearings on the draft Project Priority Lists and draft Intended Use Plans.

Drinking Water Revolving Fund – August 22, 2000
(For project plans submitted by May 1)

State Revolving Fund - September 19, 2000
(For project plans submitted by July 1)

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Michigan Department of Environmental Quality

Fiscal Year 2001 FINANCING SCHEDULE

for the State Revolving Fund (SRF) and the Drinking Water Revolving Fund (DWRF)

	QUARTER 1	QUARTER 2	QUARTER 3	QUARTER 4
Part I of Application Due	09/05/00	12/04/00	03/01/01	06/04/01
Part II Application Due FNSI Clearance Plans & Specs Approved User Charge System Approved	09/29/00	01/05/01	04/06/01	06/29/01
Bid Ad Placed No Later Than	09/30/00	01/06/01	04/07/01	06/30/01
Part III of Application Due Bid Data Submittal	11/07/00	02/20/01	05/22/01	08/15/01
DEQ Order of Approval Issued	11/28/00	03/12/01	06/11/01	09/07/01
Borrower's Pre-Closing with the Michigan Municipal Bond Authority (MMBA)*	12/08/00	03/19/01	06/19/01	09/17/01
MMBA CLOSING	12/20/00	03/29/01	06/28/01	09/28/01

*In addition to the MMBA requirements, all municipal bond sales must be reviewed and approved by the Local Audit and Finance Division of the Michigan Department of Treasury.

AN APPROVABLE APPLICATION FOR AN SRF OR DWRF LOAN MUST INCLUDE:

1. A completed SRF/DWRF application (Parts I, II, and III) including all required application information and assurances.
2. A detailed project description, cost breakdown, and project schedule.
3. Financial documentation to demonstrate ability for timely repayment of the loan and other assurances required by the application. (Part I)
4. If applicable, all executed intermunicipal service agreements. (Part II)
5. An approved User Charge System. (Part II)
6. An approved Project Plan. (Part II)
7. A set of plans and specifications suitable for bidding, including DEQ construction permit. (Part II)
8. A certified resolution from the applicant designating an authorized representative. (Part II)
9. Verification that the project has been advertised for bids or other appropriate procurement action. (Part II)

Farewell and Best Wishes

Liz Sapio, who has served as a project manager in the Municipal Facilities Section for communities in the State Revolving Fund and Drinking Water Revolving Fund Programs since May of 1994, has accepted a transfer to the Pollution Prevention Section of the Environmental Assistance Division. Liz will be working with the Retired Engineer Technical Assistance Program (RETAP) in her new assignment. Liz was an integral member of our Rouge River Wet Weather Demonstration Project Team which oversaw all SRF efforts involving combined sewer overflow control in the Rouge Basin. We wish Liz the best of luck in her new endeavor.

After nearly two years as a project manager in the Municipal Facilities Section, **Marshall Labadie** has left state service and made a career move to work in the Soil Erosion Control Program for Washtenaw County. Marshall was an energetic and dedicated project manager during his tenure with us in the SRF and the DWRP programs. We know he likes to "hit the ground running," and we wish him continued success in his new position.

Kelie Caudell, who came to work in the Municipal Facilities Section in April of 1998, has accepted a promotion to work in the Technical Assistance Section of the Environmental Assistance Division. In her new position Kelie will be involved with the Clean Corporate Citizen Program, an increasingly important and visible part of the Department's pollution prevention initiative. During her tenure with the Municipal Facilities Section, in addition to her project management duties, Kelie played a key role in the development of the Drinking Water Revolving Fund Procedures Manual. Her initiative and enthusiasm will be missed.



Project Planning Maps

By Warren Slocum

The use of maps in a Project Plan is a necessity, whether it is for a proposed State Revolving Fund or Drinking Water Revolving Fund loan. Map-making can be regarded as an artistic endeavor and like a picture, a map is "worth a thousand words." With the use of a map, many words can be eliminated from a narrative attempting to give a project's description and location. Various environmental data can be exhibited on a map allowing the project plan writer, reader, and reviewer to draw conclusions on the potential impacts of a proposed project on the cultural resources and natural environments. Quality maps included within the planning

document will greatly increase its clarity for the public, as well as the state's project manager and district engineer. An understanding of the nature, need, and positive and negative impacts of a proposed project is enhanced through the use of good maps.

Often maps from the Project Plan are included in the Environmental Assessment (EA) that is written by staff of the Municipal Facilities Section. The EA is then public-noticed for 30 days and mailed to interested community members, environmental organizations, newspapers, and governmental agencies. Well-constructed maps need to be legible in order to be copied and still be easily readable. Maps also need a title or caption; preferably a short one. Traditionally the top portion of a map represents north, but a directional arrow or symbol placed on the map will suffice. A map drawn to scale is more valuable for analysis and study.

Following is a recommendation for items to be included in maps, and where in the Project Plan they would be most appropriate:

Project Background

- The study and service areas (current and projected)
- Notable environmental features
- Existing treatment facilities site
- Existing collection, transmission, or distribution system
- Developed lots
- Malfunctioning on-site systems

Analysis of Alternatives

- Regional alternatives
- Alternate treatment facility sites
- Alternate transmission routings

Selected Alternative

- New or upgraded facilities site
- Staging of construction/project segmenting
- New sewer/water main routings
- Locations of sewer/water main rehabilitation
- Locations of new pump stations
- Locations of new basins
- Locations of overflows and bypasses to be eliminated

Evaluation of Cultural and Natural Environmental Impacts

- Areas of specific cultural resources impact
- Areas of specific natural environmental features impacts

Cartography plays an important role in project planning. The use of carefully selected and designed maps will greatly facilitate an understanding of the proposed project's nature, need, and its consequences for a municipality.

What's a Loan Worth

By Chip Heckathorn

With the birth of the State Revolving Fund in 1988 and the debate that accompanied its conception, many added the term "loan" to their list of four letter words. After decades of state and federal grant assistance, municipalities were now faced with the realization that the newly arrived bundle of joy came with a coupon book. But before we throw the baby out with the bath water (or the drinking water for that matter), consider this:

The below market rate loan provided by the SRF or DWRF acts, smells, and in many ways looks just like its older sibling, the grant.

Remember that virtually all state and federal programs that provided grant assistance required some level of local match, which usually was obtained by selling municipal bonds at the prevailing market rate. The table below shows the "grant equivalent" at various SRF/DWRF and market rates.

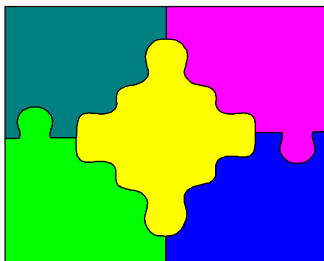
Grant Percentage Equivalent

		Market Borrowing Rate for Local Match				
		5%	6%	7%	8%	9%
SRF/DWRF Interest Rate	1.5%	27%	33%	38%	43%	47%
	2.0%	24%	30%	35%	40%	44%
	2.5%	20%	26%	32%	37%	42%
	3.0%	16%	23%	29%	34%	39%
	3.5%	12%	19%	25%	31%	36%

As you can see, at the current SRF/DWRF interest rate of 2.5 percent and a prevailing open market bond rate that is about 6 percent, a loan recipient is realizing the same financial assistance that would have been available with a grant that covered 26 percent of its project's cost. It is evident that low SRF/DWRF rates coupled with elevated market rates would result in the highest grant equivalent comparison. And although these equivalencies are clearly short of the 75 percent and 55 percent funding levels available under the old Construction Grants Program, considering increased eligibility, fewer program requirements, and shorter project implementation schedules (time is money), the SRF and DWRF clearly aren't the problem children they were first portrayed to be.

The Last Puzzle Piece

By Edwyna McKee



Whether your community has been awarded a State Revolving Fund loan for water pollution control, or a Drinking Water Revolving Fund loan for a new or existing water system, the lengthy process of planning, design, loan award, construction, and initiation of operation always ends with loan closeout. This final event is necessary for every loan, and can be accomplished with a minimum of frustration if care is taken throughout the project's progress.

To close out a Revolving Fund project, begin by keeping all project related expenses grouped by disbursement request. For example, your first disbursement may include design engineering, bond counsel, financial advisor, and other pre-loan incurred costs. The simplest way for your own bookkeeping, as well as for your MFS project manager, is to include copies of these invoices with your disbursement request submittal. At this point, the invoices and statements for services rendered are easily available and likely to be complete. Revolving Fund programs are structured to be reimbursement programs; costs must already have been incurred in order for them to be included as part of a loan disbursement. We recommend that you keep a copy of each invoice/billing/statement documenting each line item on a disbursement request in your office, as well as submit one with your disbursement request. It is then a simple matter to confirm eligibility of costs and be ready to close the financial books on the project whenever the final disbursement request is processed.

For those communities who completed projects without using the entire Revolving Fund loan amount, a timely closeout means that a revised repayment schedule will

be developed promptly after the final draw. This schedule will be based on the lower, actually drawn loan amount, rather than the higher Order of Approval amount.

Some project costs are simpler to document than others. All costs will need to be carefully documented, however, before project completion can occur, so it is crucial to establish exactly what type of documentation is needed for each line item. Your MFS project manager is experienced with cost documentation and can advise you as to what is the simplest acceptable documentation for any type of project cost. For example, administrative or force account costs are carefully reviewed and will be disallowed when adequate documentation is not provided. Again, please confer with this office if you have administrative or force account costs in your loan to prevent any unwelcome surprises at project's end. Other costs, such as payments on construction contracts, are typically simple to document.

The extra effort during disbursement request preparation will pay a high dividend at the end of your project when your MFS project manager can inform you that all necessary documentation has been submitted and approved, thereby avoiding a potential overdraft and saving your community money.

State Revolving Fund Point Scoring

By Kurt Swendsen

One of the questions we are often asked is "How can my project get more points?" This is an important question since the number of points a project gets, and the amount of available money to the SRF each year determine whether a community's project will have an opportunity for SRF funds.

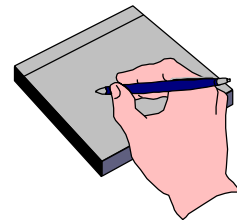
The number of points a project gets determines the annual Project Priority List (PPL). The list is generated from previously unfunded projects and from projects with an approvable project plan submitted prior to July 1 of each year. The project manager then reviews the project plan to retrieve the data necessary for scoring the project. A project is assigned priority points in the following four areas:

- (1) Water Pollution Severity Points – Awarded based on the pollutant load or the receiving water impairment that the proposed project will abate. The maximum points that can be awarded for this category are 500.
- (2) Population Points – Awarded based on the number of people to be served, as shown in the final project plan. The maximum number of points is 100.
- (3) Dilution Ratio Points – These are based on a ratio derived from the existing flow discharged, divided by the expected flow of the receiving water during the period of discharge. The maximum number of points is 100.

- (4) Enforcement Points – These are assigned if the project is necessary to comply with a fixed-date construction schedule established by an order, permit, or other document issued by the Director or entered as part of an action brought by the State against a municipality. The point allotment is 300.

Because this system is derived directly from state law and rules, these are the only four criteria used to assign points for ranking. If a project is segmented, then each segment carries the same priority point assignment and rank, so no segment has more or less points than other segments of the same project. Whereas the first segment is ranked on the PPL according to the entire project's point total, once funded, subsequent segments are ranked as "super-priority" for the next three years. These super-priority projects are placed at the top of PPL, and ranked according to their point total compared with other super-priority segments, but ahead of the rest of the projects. Thus a project that has a point total of 355, if it is a segment with a previously funded segment, may be ranked ahead of a project that is on the list with more points. Summarizing, project segments shall be considered first for fundable range assignment, before proceeding to other projects ranked below them on the PPL.

A community has an opportunity to contest the points it receives each year during the public comment period. This year's public comment period begins on August 21, 2000, when the draft Fiscal Year 2001 PPL becomes available. For rescoring consideration, your comments must be received by the Municipal Facilities Section prior to the close of the end of the public hearing record at 5:00 p.m. on September 22, 2000.



Discount Rate Set for Fiscal Year 2000

In November of last year, the Environmental Protection Agency published the discount rate for Fiscal year 2000. For project planning that begins on or after October 1, 1999, a discount rate of **6 5/8 percent** (6.625%) needs be used. This rate is ¼ point below that used for planning that began in Fiscal Year 1999, and continues a trend of decreasing rates that started in 1990.

Remember, this is NOT a rate that should be used to calculate debt retirement needs (2.5 percent, the loan rate for the SRF and DWRP does that), but rather is used in cost effective analyses to "bring" future expenditures back into today's dollars for total present worth or equivalent annual cost comparisons.

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